

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 IO-13 AID-05 CIAE-00 DODE-00 PM-05
H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01
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FM AMEMBASSY CAIRO
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AMEMBASSY JIDDA
AMEMBASSY KUWAIT

C O N F I D E N T I A L CAIRO 18220

E.O.11652: GDS
TAGS: EFIN EAID EG
SUBJ: GODE OFFICIAL ON FUNDING PLANS FOR EGYPT

1. INFORMATION COMING AVAILABLE RECENTLY HAS INDICATED THAT GODE PLANS FOR FINANCING ACTIVITIES IN EGYPT HENCEFORWARD WILL ENTER LARGELY ON PROJECT FUNDING, RATHER THAN LOANS FOR BOP ASSISTANCE AS HAS BEEN CASE WITH MOST OF GULF ORGANIZATIONS \$2,000 MILLION CAPITAL. GODE EXEC DIRECTOR DUKHEIL, IN CONVERSATION WITH E/C COUNSELOR NOVEMBER 2, CONFIRMED THAT ONLY TO FUTURE FUNDING, BUT ALSO REMAING \$650 MILLION TRANCHE. THIS DISPOSITION OF FUNDS WAS DISCUSSED WITH GOE MINECON EL SAYEH DAME CAY, ACCORDING GODE OFFICIAL. HE SAID GODE MEMBERS (READ SAUDIS) ARE CONCERNED THAT CONTINUATION OF CASH AID AS WAS NECESSARY TO CLEAR UP ARREARS THIS YEAR WOULD LIKELY ENCOURAGE EGYPT TO AVOID REFORMS OF TYPE URGED BY IMF AND TO FOLLOW PAST PROFLIGATE ECONOMIC POLICIES. DUKHEIL REMARKED IN EFFECT GODE WISHES TO MAKE DEVELOPMENT MARK ON ECONOMY WITH ITS RESOURCES, WHILE CONTRIBUTING TO SOLUTION OF UNDERLYING PROBLEMS. HE COMMENTED, IN JOCLAR FASHION, THAT USG CAN NOW UNDERTAKE
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BURDEN BOP SUPPORT. DUKHEIL EMPHASIZED SODE WILL BE IN TOUCH WITH IMF ON PROGRESS OF GOE'S REFORM PROGRAM.

2. GODE OFFICIAL WAS UNABLE TO CITE SPECIFIC PROJECTS IN WHICH GODE MIGHT BE INTERESTED AND ACKNOWLEDGED THAT IDENTIFYING FEASIBLE PROJECTS WILL INVOLVE STUDY AND EVALUATION EFFORT NOT YET UNDERTAKEN. ACCORDING DUKHEIL, GODE WILL BE

ABLE TO CALL IN EXPERTISE OF SAUDI-BASED FINANCIAL INSTITUTIONS FOR THIS PURPOSE.

3. AS TO FUTURE FUNDING OF GODE ITSELF, DUKHEIL SAID LARGE-SCALE REFINANCING IS NOT CONTEMPLATED AT THIS TIME. GODE WILL SET UP CHANNEL FOR FLOW OF CAPITAL FUNDS AND OPERATING EXPENSES AS NEEDED. ALTHOUGH NOT STATED EXPLICITLY, APPARENTLY THIS FINANCING IS INTENDED TO BE ON CASE-BY-CASE BASIS FOR INDIVIDUAL PROJECTS OPPORTUNITIES.

4. DUKHEIL REMARKED THAT GODE IS IN PROCESS OF SETTING UP LIAISON OFFICE AT CAIRO. SUITABLE OFFICE SPACE HAS BEEN FOUND IN BUILDING YET TO BE COMPLETED, BUT NO DECISION HAS BEEN MADE ON STAFFING. HE SAID GODE IN ANY EVENT IS IN NO HURRY TO OPEN OFFICE AND COMMENTED THAT IT WOULD PROVIDE STRICTLY SERVICE FUNCTION, WITH ALL POLICY QUESTIONS DECIDED IN RIYADH.

5. AHAM ARTICLE NOV 3 NOTES MEETING PREVIOUS DAY BETWEEN DUKHEIL AND MINECON EL SAYEH ON DISBURSEMENT OF SECOND TRANCHE. ARTICLE STATES VARIOUSLY THAT LOAN FUNDS WILL BE MADE AVAILABLE IN NOV OR BY END OF YEAR, THAT FINANCING WILL BE FOR IMPORT OF INTERMEDIATE AND CAPITAL GOODS, AND THAT IT WILL BE USED TO PAY OFF SHORT-TERM DEBT. (NEWS ACCOUNT ALSO NOTES THAT QATAR WILL BE EXCUSED BY GODE FROM CONTRIBUTING TO SECOND TRANCHE TOTAL "OWING TO ECONOMIC CONFIDENTIAL

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AND SOCIAL DEVELOPMENT CIRCUMSTANCES" IN QATAR.)

6. COMMENT: ALTHOUGH DUKHEIL'S REMARKS TO US ON FURTHER USE OF GODE FUNDS WERE ALMOST EXCLUSIVELY ALONG LINES OF WISH TO ENGAGE IN PROJECT FINANCING, DISBURSEMENT OF SECOND TRANCHE FOR SPECIFIED IMPORT NEEDS, AS REPORTED IN PRESS, WOULD SEEM ALSO TO MEET GODE (OR SAUDI) INTENT TO GET AWAY

FROM PRACTICE OF PROVIDING DIRECT CASH ASSISTANCE AND LIKELY WAS SUBJECT DISCUSSED BY DUKHEIL AND EL SAYEH. IMPLICATIONS GO GODE ENTERING INTO CIP-TYPE SUPPORT OPERATION (NOT TO SAY PROJECT FINANCING), AS CONTRASTED WITH CASH DISBURSEMENT, ARE OBVIOUS IN TERMS OF TIMELINESS OF ARAB AID. IF GODE BOARD POLICY (SEE JIDDA 7156) ALONG THESE LINES IS IN FACT IMPLEMENTED, EGYPT IS HEADED FOR BOP DIFFICULTIES AGAIN IN 1978 WHICH PROBABLY WILL LEAD TO RENEWED ARREARS IN PAYMENT OF ITS IMPORT BILLS.
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